

## SENIOR INTERDEPARTMENTAL GROUP--INTERNATIONAL ECONOMIC POLICY

Monday, February 3, 1983

3:00 p.m.

Roosevelt Room

## Attendees:

TreasurySecretary Regan  
Marc E. LelandCIAHenry Rowen  
StateW. Allen Wallis  
Richard McCormackUSTRAmbassador William E. Brock  
William KristDefense

Fred C. Ikle

OMB

Alton G. Keel

AgricultureSeeley G. Lodwick  
Alan TracyCEAWilliam A. Niskanen  
Glenn NelsonCommerceSecretary Baldrige  
Lionel H. OlmerOPDEdwin L. Harper  
Roger B. PorterEnergy

George Bradley

NSCHenry Nau  
Norman BaileyOil Prices

The Chairman opened the meeting with the topic of the implications of falling oil prices. He noted that there are bound to be mostly winners, some losers, temporary dislocations and long-term benefits. The SIG should focus on what to do if there is a sudden and severe drop in the oil price, which would threaten the international banking system. He called on Assistant Secretary Leland to review the work of the IG established on this subject. The IG reached the preliminary conclusions that the oil price decline is generally a good thing, but there will be selective losers in the short term and there could be a negative impact on long-term energy projects. The general conclusion was that the market should be allowed to take its course. Secretary Regan noted that another group had been established to review the effect on the banking system. This included participation from the Treasury, the Federal Reserve and the Comptroller of the Currency's office.

The discussion focussed on whether there is the possibility of a sharp decline in prices -- the most threatening scenario from the point of view of worldwide financial stability. Most agreed

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that there was little likelihood of a sharp break, although prices are likely to continue their downward direction. Some noted that the oil business had always been a boom and bust industry and that the best government response was no response. Nevertheless, given the interconnection of worldwide banking and the petroleum sector in many countries, the situation should continue to be carefully monitored. Secretary Regan said that he would distribute press guidance within the next few days.

#### Williamsburg Summit

Under Secretary Wallis gave a report on the status of Summit preparations. The Summit will begin on Saturday, May 28. The President and his Summit advisors have decided to take a more informal approach to this Summit. The major topics will be (1) economic policies, (2) economic institutions, and (3) East-West economic relations. No communique is planned. John Marcum, of the Office of Science and Technology Policy, then gave a report on the Summit technology group, which just completed its work. The final report should be ready for distribution to the SIG in the next few weeks.

#### U.S.-Japan Working Group on Energy

The Chairman then called on Norman Bailey to give a report on the status of the U.S.-Japan Working Group on Energy. Dr. Bailey noted that President Reagan initiated the idea for a working group with Prime Minister Nakasone during their private meeting. The Prime Minister responded favorably.

Dr. Bailey noted that there had been insufficient time to distribute the background paper on the working group to all agencies, although State and DOE had provided very useful input. Comments on the paper should be addressed to William Martin of the NSC staff. The goal of the working group should be to establish a short- and long-term energy cooperation strategy focussed on identifying and removing constraints to private investment and trade in energy (primarily oil, gas and coal). A first meeting should be held next month in the United States. While we want to keep close contact with the Hill and with the private sector, it might be preferable to keep this government to government for the initial meeting. Dr. Bailey said that he would call an interagency meeting next week to begin organization of the American side. He will also make initial contact with the Japanese Embassy.

Secretary Regan noted that coal should play an important role in the Group and that the issue of coal ports should be addressed. He noted the President's recent statement on ports in the State of the Union address. Ed Harper responded by saying that this issue is being carefully considered and that a proposal to improve ports, based on user fees, is presently being developed. He also noted that the President had indicated in a recent Business Week interview his desire to explore whether the present ban on Alaskan oil exports should be lifted for the benefit of both the United States and Japan.

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Secretary Regan noted that we will want to hear a report from Secretary Shultz on his discussions with the Japanese on this issue upon his return. In the meantime, we should rapidly push ahead in order to make substantial progress by the time of the next Reagan-Nakasone meeting, which could be held as soon as the Williamsburg Summit.

Coffee Agreement

It was agreed that since we had taken such an active part in the coffee commodity discussions and given the history of this agreement, we should play this out to the end and sign the agreement. However, we should continue to stress that we take a dim view of further commodity agreements.

It was noted by Allen Wallis that we should somehow let parties know that we do not intend to negotiate another agreement. It was agreed that a working group should look into the status of our negotiations for commodity agreements and should make it clear that this Administration is opposed to any more commodity agreements.

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